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Leonard S. Sawicki
Director
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MCI

EX PARTE

December 24, 1996

Mr. William F. Caton
Secretary
Federal Communications Commission
Room 222
1919 M Street NW
Washington, D.C. 20554

DEC 24 1996

Re: CC Docket 96-262: Access Charge Reform

Dear Mr. Caton:

Please include on the record of this proceeding the attached letter from Jonathan Sallet, MCI's Chief Policy Counsel to Chairman Hundt.

Sincerely,

Leonard S. Sawicki

Leonard S. Sawicki

Attachment

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Jonathan B. Sallet
Chief Policy Counsel

December 23, 1996

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

The Honorable Reed Hundt
Chairman
Federal Communications Commission
1919 M Street, NW
Washington, DC 20554

Dear Chairman Hundt:

I am writing in response to the letter of December 4, 1996 from Ray Smith of Bell Atlantic. In his letter, he makes the outlandish suggestion that the Commission should allow Bell Atlantic and the other local monopoly telephone companies to keep the billions of dollars in excess profits they currently receive from inflated access charges. Mr. Smith's letter also contains numerous misleading statements about the level of competition in the long distance industry and the billions of dollars of benefits to consumers.

Mr. Smith's suggestion that his company and the other local exchange monopolists retain the $14 billion in excess profits from access charges is unjustifiable. MCI would like nothing more than to stop being the tax collector for the ILECs of these unwarranted excess profits. The fact is, this is the ratepayer's money and it should be returned to them. We have repeatedly pledged that when overcharges for access are abolished, MCI will pass on the savings to our customers. There is no reason why RBOC's should be permitted to hang on to monies whose collection cannot be justified in the first instance.

The reality is that domestic long distance rates have declined far more than access charges throughout this decade. Between 1991 and 1996 long distance customers have saved more than $51 billion. The USTA recently cited access-charge savings during the same period of $9 billion. Even in 1996, when access charges remained flat, the average price per minute of long distance service has continued to fall. The bottom line: consumers are reaping enormous benefits from a competitive long distance market.

Furthermore, the competitive choices that exist in the long distance market, with more than 500 companies to choose from, guarantees that access reductions will get flowed through. Any long distance carrier that fails to pass on the benefits of access reductions to their customers is likely to watch its customers take their business elsewhere. If there is any question whether losing customers is a real risk, one need only look at the data. In 1995, some 37.5 million residential consumers changed their long distance carriers (compared to about zero in local exchange service). More and more American consumers are taking advantage of long distance competition every day.

Unfortunately, the same cannot be said for the local market where consumers still have no choice. The RBOC's are among the wealthiest companies in the world. A look at RBOC profits shows an operating cash flow margin of about 45 percent. This is higher then every other industry sector in the country including petroleum producers, electric utilities, drug companies and railroads. By contrast, the competitive long distance companies have an operating cash flow of about 20 percent.

MCI plans to be a vigorous competitor in the local telephony market for both residential and business customers. We recognize the importance of each and every customer, regardless of how much is currently spent on long distance services, and we continue to come up with new and exciting ways to serve the needs of all users. The reason is simple. MCI is working hard for the opportunity to provide these customers with long distance, local and other innovative telecommunications services. Unfortunately, Bell Atlantic and the other monopoly local telephone companies are doing everything possible, including challenging the Commission's local competition rules, to keep consumers from having the kind of choices for local service that they already have for long distance.

As for the benefits to consumers from long distance competition, let's examine the facts.

The Bell Atlantic letter, simply citing basic rate changes, completely ignores the realities of the competitive long distance marketplace, which is well known to the incumbent monopolies. Industry analysts estimate that anywhere between 50 percent and 80 percent of long distance customers are currently enrolled in discount plans. This accounts for the vast majority of residential revenues, and is growing every day. The number of plans designed to fit different consumers' needs, as well as the discounts offered, continues to grow in response to the competitive forces in our industry. Real rates have declined in every year since 1984. As noted above, customers shop for the best value -- and they have 500 different companies to choose from.

MCI hopes the Commission will reject this cynical request from Bell Atlantic to hold on to its monopoly profits while it pulls out all the stops to keep its local monopoly markets from being opened to competition. The only way to guarantee that consumers will <u>not</u> receive the benefits of reducing access charges to economic cost, would be to allow the monopolists like Bell Atlantic to keep receiving artificial subsidies. Keeping access rates inflated will simply permit the local monopolists to further discourage local competition and pad their already excessive profits. MCI urges the Commission to lower access charges to economic cost right away.

Sincerely,

Jonathan B. Sallet
Chief Policy Counsel